



U.S. Small Business Administration
"America's Small
Business Resource"

Small Business Beat

Quarterly Publication of the Michigan District Office

Spring 2005

SBA Expo '05: "Celebrating National Small Business Week"



Join us at the U.S. Small Business Administration's **SBA Expo '05: "Celebrating National Small Business Week"** in Washington, D.C., April 26-28, at the Hilton Washington Hotel. Entrepreneurs from all over the country will attend, including state small business persons of the year and other small business award winners. Come and meet the National Small Business Person of the Year! Come and meet the state winners from 50 states, the District of Columbia, Puerto Rico and Guam. Come and see how Business Matchmaking really works!

BUSINESS MATCHMAKING

A unique and valuable way for small businesses to meet one-on-one with public and private organizations for procurement opportunities. This initiative is funded in part by the SBA through a cooperative agreement with HP Small Business Foundation.

BUSINESS SESSIONS

A superb lineup of educational seminars will feature expert panelists discussing the latest developments and best practices in the world of business and entrepreneurship. Here are some of the scheduled sessions:

**Financing - The SBA Way
How Tax and Regulatory
Reform Impact your Bottom
Line**

**Big Time Marketing on a Small
Business Budget**

**Growing your Business in the
Global Marketplace**

**Women in the International
Marketplace: Pathways to
Success**

**Is the High Cost of Healthcare
Making You Sick?**

**Competitive Edge - Tools for
21st Century Success**

**Certification that Fosters Your
Business Growth**

EXPO FLOOR

More than 185 exhibitors from the public and private sectors will be at the event to provide information and conduct business with small business attendees.

TOWN HALL

Tackle the pressing issues facing entrepreneurs today; talk to SBA Administrator Hector V. Barreto and other special guests; ask questions and speak your mind.

Go the **SBA Expo '05** Web page to learn more about the SBA's celebration of National Small Business Week. The page is located at www.sba.gov/expo. It offers a complete schedule of events, online registration, a virtual press room, FAQs, and more. The site will be updated regularly with new event information.



Michigan Celebrates Small Business

Michigan Celebrates Small Business is the state's premier awards ceremony for entrepreneurs and the supporters of small business. The Michigan Economic Development Corporation, Michigan Small Business & Technology Development Center, Small Business Association of Michigan, and the SBA have joined forces to recognize and celebrate Michigan's outstanding entrepreneurs.

This year's **Michigan Celebrates Small Business** event will be held at the Kellogg Hotel & Conference Center, in East Lansing on April 28. The event has already sold out.

Governor Jennifer Granholm will be the keynote speaker. The presentation of SBA's annual awards will be a highlight of this event. These award winners are listed to the right. Both Ted Doan and Jeff & Rich Sloan were the Midwest Regional award winners in their categories. Another highlight will be the announcement of the inaugural edition of the "50 Companies to Watch" list.

Additional information about the **Michigan Celebrates Small Business** can be located at www.michigancelebrates.biz.



Michigan District Office 2005 Small Business Award Winners

Small Business Persons of the Year

Michael & Rachel McCormack
MicroMax, Inc., Canton

Family-Owned Small Business of the Year

Suk-Kyu Koh
Chrysan Industries, Inc., Plymouth

Minority Small Business Champion of the Year

Enrique Carrillo
Comerica Inc., Detroit

Women in Business Champion of the Year

Rita VanderVen
Grand Rapids Opportunities for Women, Grand Rapids

Financial Services Champion of the Year

Herbert (Ted) Doan
Herbert H. and Grace A. Dow Foundation, Midland

Small Business Journalists of the Year

Jeff & Rich Sloan
StartupNation®, Birmingham

Michigan Small Business Counselor of the Year

Vikram Mathur
Small Business & Technology Development Center, Livonia

Event Partners



Small Business News and Updates

Demand for SBA-Backed Loans Maintains Record Pace

Reflecting the economic expansion, Michigan small businesses continued borrowing to start and expand their companies over the first six months of the current fiscal year.

In Michigan during the first six months of FY 2005, we approved 1,380 7(a) guaranteed loans worth more than \$212.6 million and 78 504 loans worth more than \$43.8 million.

In FY 2004, during the first six months we approved 907 7(a) guaranteed loans worth more than \$172 million and 57 504 loans worth more than \$25.8 million.

Nationally, SBA approved 46,603 7(a) loans totaling \$6.98 billion in the first six months of FY 2005, compared to 36,646 loans worth \$5.67 billion in the same period a year earlier.

During the first six month of FY 2004, SBA approved 3,871 504 loans worth \$2.04 billion, compared to FY 2004 when 3,709 504 loans were approved for \$1.75 billion.

For more information about SBA's 7(a) guaranteed loan program, contact the Michigan District Office at (313) 226-6075 or visit us at www.sba.gov/mi.



Small Business Calendar

April

April 27 - Financing Your Business. Mt. Pleasant (989) 386-6630

SBA Day on Financing. Detroit (313) 226-6075 x279

April 29 - Financing Roundtable by TEAM SBA. Kalamazoo (269) 337-7350

May

May 3

Start a Home-based Biz. Traverse City (231) 995-1700

Patents & Trademarks. Grand Rapids (616) 331-7370

May 8 - Pre-Business Basics. Detroit (313) 226-7947

May 10 - New Entrepreneurs. Ontonagon (906) 884-4188

May 11 - Pre-Business Basics. Warren (313) 226-7947

May 12 - Financing Roundtable by TEAM SBA. Monroe (734) 241-8754

May 16 - ABCs of Business. Flint (810) 767-6494

May 18

Basics of Exporting. Livonia (313) 226-7947

Accounting for Small Business. Bloomfield (313) 226-4769

Women Business Certification. Mt. Clemens ((734) 677-1444

May 19 - Elements of a Business Plan. Detroit (313) 226-7947

May 24 - Financing Roundtable by TEAM SBA. Ypsilanti (734) 547-9170

June

June 1 - SBA Financing Fair. Bloomfield Hills (248) 858-0783

June 2 - Business Start-up. Midland (989) 686-9597

June 8 - Women Business Certification. Pontiac (734) 677-1444

June 10 - Develop a Business Plan. Grand Rapids (616) 771-0305

June 16 - Elements of a Business Plan. Warren (313) 226-7947

June 24 - Business Accounting. Lansing (517) 483-9853

For a list of upcoming workshops, please visit our Web site at <http://www.sba.gov/mi>.



ASK SBA...

Q: How does a lender evaluate loan applications and what will make me more likely to get a loan?

A: When reviewing a loan request, the lender is primarily concerned with repayment of the loan. Loan officers judge loan applications based on what are commonly referred to as the “Five C’s of Credit.” The five C’s are character, cash flow, capitalization, collateral, and conditions.

Character. Lenders will order a copy of your credit report and look at debt repayment trends. They want to know simply if you pay your bills and if you pay them on time. If there are blemishes on your report, you should be ready to explain them. If you have never reviewed your credit report, you may wish to order a copy before going to the bank (to ensure there are no surprises or mistakes). The credit agencies are Experian (888) 397-3742 or <http://www.experian.com>; Equifax (800) 997-2493 or <http://www.equifax.com>; and Trans Union (800) 888-4213 or <http://www.transunion.com>.

Cash Flow. Cash flow is extremely important to lenders. They will look at historical (if an existing business) and projected cash flow statements to determine whether you will be able to repay the loan and still have money to adequately run the business. When creating your cash flow statements, remember to include written justification and assumptions made for your projections in your loan proposal. While the numbers are important, the lender also needs to know how you arrived at those numbers.

Projected cash flow statements are often difficult for small business owners to generate. It is hard to be optimistic yet realistic when making assumptions. You may find it helpful to create two different cash flow statements, a best-case scenario and a worst-case scenario, so you know what your cash status may be under both conditions.

Capitalization. Capitalization refers to the basic resources of the company including owner’s equity, retained earnings, and fixed assets. You do not have to be fully capitalized to qualify for a loan. It is common for start-up and new businesses to be under capitalized.

Collateral. Collateral is an asset (something you own) which a lender may claim to satisfy a loan in the event the loan is not repaid according to the agreed terms. Often the assets purchased with the loan may serve as collateral. If the business does not have enough collateral, the bank will look to personal assets. Deficiencies in collateral are not necessarily fatal. In fact it is often a reason lenders look to SBA for a loan guaranty.

Conditions. Factors that affect the success of the company, yet are external to the business, will also be considered by the lender. Examples include government regulation, competition, and industry trends. It is important to be aware of any of these issues that may affect the success of your business.

To receive assistance with your loan proposal, please contact a local SCORE or Small Business & Technology Development Center to

schedule your free appointment with a business counselor. They can help you develop a realistic and effective proposal and prepare you for your visit with the lender. Call SBA at (313) 226-6075 for the location of the nearest SCORE or MI-SBTDC counselor.

SBA would like to hear from you. Please send your small business questions to: Newsletter Business Questions, U.S. Small Business Administration, 477 Michigan Avenue, Suite 515, Detroit, Michigan 48226; or FAX to the attention of Business Questions (313) 226-4769; or e-mail: michigan@sba.gov.

Newsletter Mailing

If you or someone you know would like to receive a copy of future editions of *Small Business Beat* via e-mail, please forward the e-mail address to Annette Hall at annette.hall@sba.gov.

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All of SBA’s programs and services are provided to the public on a nondiscriminatory basis.



SBA's Window to Wall Street for Small Business

SBA 504 Loans are a Win-Win for Everyone!

by Richard Temkin, SBA District Director

SBA's "Window to Wall Street" for small business is a great deal. Small business owners thinking of purchasing or renovating commercial real estate or purchasing equipment to grow or expand their businesses should consider the U.S. Small Business Administration's Certified Development Company 504 Loan Program. A 504 loan provides access to the same type of long-term, fixed-rate financing enjoyed by larger firms. Interest rates are equivalent to favorable bond market rates. Most Michigan businesses are eligible for this loan program.

A 504 loan may be used for purchasing such fixed assets as land and improvements, including owner-occupied buildings; grading, parking lots and landscaping; construction of new facilities, or modernizing or converting existing facilities; or machinery and equipment with a useful life of at least 10 years. Soft costs like legal and architectural fees, environmental studies, appraisals, and interest and fees on the construction and/or interim bank loan can also be rolled into the loan. Loans for working capital, inventory, debt consolidation or refinancing are eligible through our 7(a) Program.

A typical 504 project is financed 50/40/10. Fifty percent of the project costs are provided through a senior private-sector lender or bank. This senior loan is usually for at least a 10-year term at a fixed or variable rate, depending on the relationship with the lender. Forty percent of the project costs would be financed by a fixed-rate debenture secured with a junior lien from an SBA Certified Development Company (CDC). The debenture is backed by a 100 percent SBA guaranty.

The final piece of the pie is a contribution of 10 percent equity from the small business being helped. Because of the lower down payment required and the ability to finance the soft costs, the small business will realize up front cash savings of approximately \$100,000 on a \$1 million project.

The maximum SBA debenture under this program has recently been increased to \$1.5 million (\$4 million for manufacturing loans), and maturities of 10 or 20 years are available. This means that with a 504 loan the total project cost could be over \$10 million. Interest rates on 504 loans are pegged to an increment above the current market rate for five-year and 10-year U.S. Treasury issues. The rate on the 504 loan is fixed for the life of the loan and is set when the CDC sells the bond to fund the loan. Effective all-in rates, which

include all fees and closing costs, on 20-year bonds in recent months have ranged between 6.79 – 7.07 percent.

Consider the benefits of the 504 Loan Program versus conventional mortgage financing:

Advantages to the business:

- **Low down payment.** In most cases, the company is required to inject just 10 percent, which allows the business to preserve cash for working capital. Most banks will lend only 60-70 percent of the appraised value of the real estate leaving the company to sink in 30-40 percent plus the cost of renovations and soft costs.
- **Fixed rate on the SBA 504 portion.** Small businesses don't have to worry about the prime lending rate going up and can calculate the exact amount of their mortgage payments for 20 years.
- **Long term.** 504 loans are for 10 or 20 years. Because the CDC is in second lien position, the bank or other lender doing the 50 percent first lien loan is willing to lend at a longer term. Longer terms reduce monthly payments.
- **Low interest rate.** Even with the fees and closing costs included in the rate, the 504 program offers a low rate for a subordinate mortgage loan, particularly for small businesses. The blended rate between the bank portion and the SBA's 504 portion makes the project very affordable.

To learn more about this program, call the SBA at (313) 226-6075 or contact one of the following CDC's serving Michigan:

Economic Development Foundation-Certified,
Grand Rapids, (888) 330-1776
Growth Finance Corporation, Howard City,
(231) 937-7429
Lakeshore 504 - South Office, Holland, (616) 392-9633
Lakeshore 504 - North Office, Grand Haven,
(616) 842-3153
Metropolitan Growth & Development Corporation,
Detroit, (313) 224-0820
Michigan Certified Development Corporation, Lansing,
(517) 886-6612
Oakland County Business Finance Corporation,
Pontiac, (248) 858-0879
SEM Resource Capital, Livonia, (734) 464-4418
SEM Resource Capital, Holland, (616) 396-8591

2005 Lenders' Conference and Awards

About 175 people attended our seventh annual Michigan Lenders' Conference on March 24 at the Kellogg Center in East Lansing. A highlight of this year's conference was the presentation of eight awards to SBA lenders for their performance in FY 2004, another record-setting year for SBA lending in Michigan. Pictures of each award winner with District Director Richard Temkin are shown below. This year's winners follow:

Fifth Third Bank - "Lender of the Year" Our traditional award for the best overall performance considering total volume, new markets, comparison with historical performance, etc.

Fifth Third Bank - "504 Lender of the Year" Best overall performance by a bank in support of 504 lending.

Comerica Bank - "PLP Lender of the Year" The most loans approved by a preferred lender. Preferred lenders enjoy full delegation of SBA's lending authority.

Macatawa Bank - "Community Lender of the Year" Best overall performance among Michigan-based non-PLP lenders. It considers total volume, new markets, comparison with historical performance, etc.

Chemical Financial Corporation - "Business Development Lender of the Year" Among lenders with at least 10 approvals in the prior year, the largest percentage increase in number of approvals.

National City - "SBAExpress Lender of the Year" Award for the lender which had the most SBAExpress loans.

Fifth Third Bank - "SBA LowDoc Lender of the Year" Award for the most SBA LowDoc loans.

National City - "New Markets Lender of the Year" Best overall performance in lending to new markets.



Fifth Third Bank



National City



Comerica Bank



Macatawa Bank



Chemical Financial Corp.